

Private fitness, inc.

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BBUS 425 Advanced Management Accounting| Case 1: Private Fitness, Inc. | Analysis of existing management and operation issues| Yunlong TangYen Hao Chao|Instructor: Tony Bell|Sep 16, 2012| MEMORANDUM DATE: Sep 16, 2012 TO: Rosemary Worth, the owner of Private Fitness, Inc. FROM: Yen Hao Chao and Yunlong Tang ----- RE: Analysis of existing management and operation issues It's a pleasure that we have a chance to review your company's existing management and operation system.

We believe that there are some serious management and operation problems which need to be changed or improved immediately. In this memorandum, we will identify those issues in management and operation system, and provide recommended solutions for solving problems. Issues in management and operation system 1. The biggest issue is that the company has less control on tracking all records, such as the number of clients, the length of any private fitness class, and the money transactions between customers and the company.

Without this information, the company may not collect cash properly and prevent crimes from happening in the operation, such as money stealing 2. Some of the jobs from management level have not been well performed in the normal business operation, since all power and jobs have been centralized onto one person. 3. Employees might provide some private fitness classes to the client without reporting to the company. This is a very serious problem, since employment honesty is a huge benefit to the health of your business.

Solution We will provide you the suggestions based on two types of control which are action control and personal control. In action control, we recommend you to install a control system for tracking classroom usage and hire another financial manager to take over any financial jobs, operation cost and profit recording from Kate. In personnel control, we recommend you to regulate some new policies such as no personal discount and any class appointment must be reported to the new financemanager.

Classroom usage control system Classroom usage control system is a system to help you to track the length of using the classroom in order to verify how much money is collected based on the time of classroom usage. Under this system, every client or employee must apply a card to use the classroom. They need to swipe on the machine in order to get in or out of the exercise room. After they swipe the machine, the computer will automatically record this data and save it to the database.

Through this control system, you will have the complete information about how many clients you have, how long they stay in the classroom, and how much money you are supposed to earn each month based on the time of classroom usage. If the collected money does not match the amount of cash received based on the length of classroom usage, the financial manager needs to be responsible and find out the reason for the missing money as well as report the incident to you immediately. Although this control system will solve the problems and generate huge profits in the long run, but it still has some disadvantages such as cost and maintenance.

Additionally, you have to provide significant training for employees and customers to know how to use this system. Management system Your

management system has failed to meet the goal of its function which is supposed to include monitoring and controlling the finance of your company. First, we know that your manager, Kate Hoffman, has been in charge of almost all jobs at the management level. Putting too much power in the hands of one manager may create risks to the management system.

Second, since Kate has both jobs as an instructor and a manager in the company, she may not have enough time to keep track of every single transaction and all expenses accurately. As a result, we believe that hiring a professional person with finance education and management experience as a financial manager is necessary. The new manager will be in charge of record monitoring, appointment scheduling and financing, and Kate will become the marketing manager including the duty of facility up-keep and keep her position as one of the instructor in the company.

Kate and the new manager will now each receive 50% of the salary which Kate used to receive, but Kate can still have the bonus as usual. All business transaction, such as money collecting and equipment purchasing, will be reported to the new manager. Although most clients have direct contact with some of your company's employees, any appointment of taking classes must also be reported to the new manager with details on the date of the appointment and the length of the class.

As well, the new manager has to directly report all information to you periodically, like once a month. Hiring a new manager will lead to a flatter business structure so that every manager has more specific functions on controlling the system and more accuracy on performance. Furthermore, viewing the report of all periodic expenses and profit from the finance

manager will provide a forecast on the company's future financial situation and become more helpful to improve the efficiency of the operation and the decision making from the management level.

However, this new move may create unexpected expenses on paying salary to the new manager, and also, the new manager will need time to become familiar with his/her new co-workers and the new working environments. Policies Since many of the students have straight contact with the instructors, they may deal with the instructors under the table, such as asking for the personal discount privately. Some of the instructors may also provide private classes to students with using company's facility in the normal business schedule without reporting.

To prevent those risks, you must create related policies as follow: * No personal discount provided to customers from any of our employees unless the discount is permitted by the company * No private fitness classes are provided to the customers at any of the time unless the classes have been reported * Any violation of the two policies will receive penalty or warning depending on the situation.

We believe the new policies will restrict the authority of using the facility and limit the contact with customers from the employees. The employees will behave more professionally and become more honest to the company. The chance of creating unreported transaction will be minimized, and the record of using any facility in the company will be more accurate. However, the employees may feel uncomfortable with the new policies, but they will get used to the new policies. Recommendation

We recommend that the company should set up a system for tracking the usage of classrooms, hire a new financial manager to take over partial duty of management from Kate and regulate some new policies. New system and new manager will provide significant control on tracking the process of collecting money and organizing business operation. On the other hand, in order to enhance the honesty of employees, implementing new policies inside the company is necessary and beneficial to provide a healthier working environment.